



City Council Staff Report

February 19, 2019

ITEM

Staff Report: Fiscal Year 2019 Mid-Year Budget Review

BACKGROUND

Consistent with the Strategic Plan objective of fiscal transparency, this report provides the mid-year status of the City's General Fund operating budget. A first quarter status report was presented on January 22, 2019. The purpose of this report is to review the financial results of the activities of the first half of the current fiscal year and provide projections of revenues and expenditures through the end of the fiscal year. In addition, the report recommends various budget adjustments.

DISCUSSION

First Half of Fiscal Year 2019

The adopted Fiscal Year 2019 budget authorizes the use of unassigned fund balance for operating and capital expenditures and the use of committed fund balance – specifically, the Facilities Maintenance Reserve – for urgent (“Tier 1”) facilities maintenance needs. The use of unassigned fund balance for operating expenses is considered a structural deficit.

Based on year-to-date actual revenues and expenditures through December 31, 2018 and expected activities through year-end, the anticipated use of unassigned fund balance is less than originally projected, while the use of committed fund balance is greater. The following sections of this report will discuss the significant factors leading to the variances.

Revenues

For fiscal year 2019, General Fund revenues are expected to be greater than amounts budgeted by \$2.8 million. The projected variances in each revenue category resulting in the overall variance are shown in the “Fiscal Year-End Revenue Projections” table. The “Mid-Year Revenue Comparison” table below compares revenues realized through the mid-point of this fiscal year to the mid-point of last fiscal year.

Mid-Year Revenue Comparison

GENERAL FUND
 REVENUES
 AS OF DECEMBER 31ST

| <u>Revenue Category</u> | <u>FY 19</u> | <u>FY 18</u> | <u>Difference</u> |
|--|---------------------|---------------------|--------------------|
| Sales & Use Tax | \$ 6,581,756 | \$ 6,322,315 | \$ 259,440 |
| District Transactions & Use Tax | 4,347,216 | 3,978,559 | 368,657 |
| Property Tax ¹ | 826,231 | 835,816 | (9,585) |
| Property Tax in Lieu of VLF ² | - | - | - |
| Other Revenues | 3,650,666 | 4,388,223 | (737,557) |
| Total | <u>\$15,405,869</u> | <u>\$15,524,913</u> | <u>\$(119,045)</u> |

1 reflects reduction for property tax allocation to the Library and Parks Maintenance funds

2 VLF – vehicle license fees

3 Transfer(s) In not reflected.

The General Fund’s primary sources of revenue are the sales & use tax, the district transactions & use tax, property tax in lieu of vehicle license fees, and property taxes. During the first six months of the current fiscal year, these revenues were approximately \$11.8 million, \$0.6 million ahead of last year, while General Fund revenues as a whole totaled \$15.4 million, approximately \$0.1 million less the same period last year. Significant factors in the year to year difference include the following:

- Combined, receipts from the sales-related taxes, sales & use tax and the City’s district transactions & use tax, were \$0.6 million above those received for the same period of the prior fiscal year. Contributing to the positive variance of these revenues were allocations which were due to the City during the 4th quarter of the prior fiscal but were delayed until the current fiscal year, as the State transitioned to a new sales tax reporting system. In general, however, the building & construction sector, as well as business & industry, fuel & service stations, and restaurants & hotels have been steady or strong overall, but autos & transportation, and general consumer goods have not performed as well as expected.
- “Other Revenues” comprises all other General Fund revenues not specifically identified in the above table. These revenues were \$0.7 million lower during the first half of the year compared to the first half of last year. As is to be expected, some of the accounts are ahead of last year’s amounts and some are behind, because of the nature of the funding source and variations that occur from year to year in the timing of receipts.

While no amounts are reflected in the table for property tax in lieu of vehicle license fees (“VLF”) revenue, it is included in this table because it is a significant funding source for the City. In accordance with State statutes, this revenue, which is based on the change in assessed property valuations, is distributed to the City by the County of San Diego in two equal installments, the first of which is paid in January and the second in May. The revenue anticipated from this source for the current fiscal year is reflected in the table below.

Fiscal Year-End Revenue Projections

GENERAL FUND
 REVENUES
 FISCAL YEAR 2019

| <u>Revenue Category</u> | <u>Projected</u> | <u>Adjusted Budget</u> ¹ | <u>Projected Balance</u> | <u>% Variance</u> |
|---------------------------------|---------------------|-------------------------------------|--------------------------|-------------------|
| Sales & Use Tax | \$18,990,000 | \$18,078,000 | \$ 912,000 | 5.0% |
| District Transactions & Use Tax | 11,965,000 | 11,359,000 | 606,000 | 5.3% |
| Property Tax ² | 2,164,001 | 2,146,711 | 17,290 | 0.8% |
| Property Tax in Lieu of VLF | 6,681,226 | 6,661,664 | 19,562 | 0.3% |
| Other Revenues | 23,126,512 | 21,846,392 | 1,280,120 | 5.9% |
| Total | \$62,926,739 | \$60,091,767 | \$ 2,834,972 | 4.7% |

1 adopted budget total, plus budget amendments and an adjustment of \$5.5 million to Other Revenues to balance revenues to appropriations for the revenue offset WI-TOD and Paradise Creek Park Remediation capital improvement project that was carried forward from fiscal year 2018.

2 reflects reduction for property tax allocation to the Library and Parks Maintenance funds

3 Transfer(s) In not reflected

The above table provides projections of fiscal year 2019 General Fund revenues and compares them to their adjusted budgets. As noted above, General Fund revenues are expected to exceed the adjusted budget by approximately \$2.8 million overall. This estimate is based upon year-to-date and historical data, input from the City’s sales tax consultant, and information obtained from the State of California and County of San Diego. Significant elements of the expected overall positive variance include:

- As explained above, both sales & use tax and the district transaction & use tax are above actuals for the same time period last fiscal year. The influence of the delayed payments on the revenues to date currently results in a projection that these revenues will exceed their budgets.
- Other Revenues will exceed their budgeted total by \$1.3 million, which is attributable to a combination of projected positive and negative variances in the various individual accounts with the most significant variances noted below:
 - overtime reimbursements from the state and federal governments for the Fire Department’s assistance in fighting wildfires throughout the State during the first half of this fiscal year, +\$0.7 million;
 - increased refunds related to insurance claims, \$0.1 million;
 - increase in utility company permits revenues, \$0.1 million.

Expenditures

Expenditure totals at year-end are expected to exceed the budget by \$0.5 million. The projected variances in each expenditure category resulting in the overall variance are shown in the “Fiscal

Year-End Expenditure Projections” table. The “Mid-Year Expenditure Comparison” below compares expenditures through the mid-point of this fiscal year to the mid-point of last fiscal year.

Mid-Year Expenditure Comparison

GENERAL FUND
 EXPENDITURES
 AS OF DECEMBER 31ST

| <u>Expenditure Category</u> | <u>FY 19</u> | <u>FY 18</u> | <u>Difference</u> |
|-----------------------------|--------------|--------------|-------------------|
| Personnel Services | \$21,157,060 | \$19,074,707 | \$2,082,353 |
| Maintenance & Operations | 2,572,922 | 2,360,234 | 212,687 |
| Capital Outlay | 46,383 | 39,528 | 6,855 |
| Capital Improvement Program | 2,630,357 | 1,371,173 | 1,259,184 |
| Internal Service Charges | 3,770,772 | 4,002,050 | (231,278) |
| Total | \$30,177,495 | \$26,847,692 | \$3,329,802 |

1 Transfer(s) Out not reflected

As of December 31, 2018, General Fund expenditures totaled \$30.2 million, exceeding those at the same point last fiscal year by \$3.3 million. The most significant factors in the year-to-year difference were:

- higher personnel costs than for fiscal year 2018 at the same point, primarily due to negotiated compensation increases and overtime charges; and
- savings in internal service charges resulting from the change in allocation methodology adopted for fiscal year 2019.

The expenditure differences shown in all other accounts are primarily the result of timing differences of costs being incurred from one year to the next in the course of the City carrying out its various service responsibilities and capital projects.

The table below provides a projection of General Fund expenditures for all of fiscal year 2019 and compares them to the adjusted budget. As noted above, General Fund expenditures are expected to be greater than the adjusted budget by approximately \$0.5 million overall.

Fiscal Year-End Expenditure Projections

GENERAL FUND
 EXPENDITURES
 FISCAL YEAR 2019

| <u>Expenditure Category</u> | <u>Projected</u> | <u>Adjusted Budget</u> ¹ | <u>Projected Balance</u> | <u>% Variance</u> |
|-----------------------------|---------------------|-------------------------------------|--------------------------|-------------------|
| Personnel Services | \$38,492,973 | \$38,190,898 | \$ 302,075 | (0.8)% |
| Maintenance & Operations | 6,989,320 | 6,952,847 | 36,473 | (0.5)% |
| Capital Outlay | 167,731 | 167,731 | - | (0.0)% |
| Capital Improvements | 14,557,591 | 14,457,591 | 100,000 | (0.7)% |
| Internal Service Charges | 7,596,545 | 7,596,545 | - | 0.0% |
| Total | \$67,804,160 | \$67,365,612 | \$ 438,548 | (0.7)% |

1 adopted budget total, plus budget amendments, and encumbrances and capital projects appropriations carried forward from previous fiscal year(s)

2 Transfer(s) Out not reflected

Personnel costs at fiscal-year-end are projected to be higher than budget by \$0.3 million, primarily resulting from net of increases in overtime charges and full and part-time salaries and decreases in health insurance premiums and savings from vacant authorized positions. The overtime increases are largely due to the Fire Department’s assistance in battling wildfires throughout the State. The personnel compensation increases are associated with the State-mandated minimum wage increase, the negotiated Municipal Employees’ Association increase, and staffing adjustments requested by the Police Department. The Police Department’s requested staffing adjustment includes the replacements of an Investigative Aide and Police Dispatch Supervisor for a Crime Scene Specialist and Police Support Services Manager, respectively. Since the new positions requested would replace existing positions, if approved, the change would not result in an overall increase in budgeted positions.

The projected overage in maintenance & operations is a combination of anticipated savings in various accounts offset by unanticipated expenses in others.

The negative budget versus actual projection of for capital improvements reflects staff’s request for the use of committed fund balance of \$100,000 to fund an urgent ceiling repair project in City Hall. All other adjusted budget appropriations for capital improvements are being projected as being entirely spent, because none of the current projects are expected to yield any savings from the amounts budgeted. It is likely, however, that some portion of the current year’s appropriations will be unspent at year-end and will be carried over to next fiscal year.

Budgetary adjustments recommended to address projected overages are included in the “Supplemental Appropriation Requests” attachment (Exhibit “A”). Justification for the

personnel adjustments and their fiscal impact are included in the “Personnel Requests” attachment (Exhibit “B”).

Staff will continue to monitor all expenses and provide revised projections in the third quarter budget status report.

Transfers In/Out

While technically not revenues and expenditures (and, hence, not shown above), transfers in and out of the General Fund contribute to fund balance increases and decreases, respectively. Transfers in and out are not expected to deviate from the budgeted amounts.

Net Impact on Unassigned Fund Balance

As discussed above, the General Fund is expected to realize more revenues than budgeted and to spend more overall than budgeted. The combination of the two will result in the use of a lesser amount of unassigned fund balance than reflected in the adjusted budget. The adjusted budget reflects a use of \$4.3 million in unassigned fund balance. Combining the above revenue and expenditure projections with expected transfers in and out results in an anticipated decrease of \$2.4 million in the use of unassigned fund balance. (See the “Balance” column in the table below.) As a result, the use of unassigned fund balance for the fiscal year is projected to total \$1.8 million.

GENERAL FUND
 IMPACT ON UNASSIGNED FUND BALANCE
 FISCAL YEAR 2019

| | <u>Projected</u> | <u>Adjusted Budget</u> | <u>Balance</u> |
|--------------------------------------|------------------|----------------------------|----------------|
| Revenue | \$ 62,926,739 | \$ 60,091,767 | \$ 2,834,972 |
| Transfers In | 62,829 | 62,829 | - |
| Total Revenue & Transfers In | \$ 62,989,568 | \$ 60,154,596 | \$ 2,834,972 |
| Expenditures | \$(67,804,160) | \$(67,365,612) | \$ 438,548 |
| Transfers Out | (1,858,192) | (1,858,192) | - |
| Total Expenditures & Transfers Out | \$(69,662,352) | \$(69,223,804) | \$ 438,548 |
| Use of Fund Balance | \$ 6,672,784 | \$ 9,069,208 | \$ 2,396,424 |
| Less Use of Assigned Fund Balance * | 4,188,442 | 4,188,442 | - |
| Less Use of Committed Fund Balance * | 700,000 | 600,000 | \$ 100,000 |
| Use of Unassigned Fund Balance | \$ 1,784,342 | \$ 4,280,766 | \$2,496,424 |

* For purpose of estimating use of unassigned fund balance, all appropriations impacting assigned fund balance assumed to be expended.

BUDGET ADJUSTMENTS

During the mid-year budget review process, the Department of Finance identified budget adjustments necessary due to expenses unanticipated during the annual budgeting process. In addition, departments have been afforded the opportunity to submit supplemental appropriation requests based upon actual or projected budgetary requirements not anticipated during the annual budgeting process and to request other budget adjustments. The attached schedules reflect the recommended and requested adjustments. The recommendation section below provides a summary of those adjustments by account group and fund.

RECOMMENDATION

Authorize the City Manager to approve budget adjustments up to the following amounts:

- **General Fund**
 - Expenditures
 - \$961,901 Personnel
 - \$175,208 Maintenance & Operations
 - \$100,000 Capital Improvements
 - Revenues
 - \$600,600 Other Revenue
- **Gas Taxes Fund**
 - Expenditures
 - \$40,000 R&M Traffic Control Devices
- **Sewer Service Fund**
 - Expenditures
 - \$9,000 Electricity & Gas
- **Nutrition Fund**
 - Expenditures
 - \$8,633 Consumable Supplies
- **Mile of Cars Landscape Maintenance District Fund**
 - Expenditures
 - \$32,216 Maintenance & Operations
 - Revenues
 - \$32,216 Mile of Cars Maintenance District
- **Development Impact Fee Fund**
 - Transfer Out

- \$756,992 Transfer to Fund 326 Transportation Impact Fees

- **Transportation Impact Fee Fund**
 - Expenditures
 - \$65,000 Capital Improvement

 - Transfer In
 - \$756,992 Transfer from Fund 325 Development Impact Fees

- **Low & Moderate Income Housing Asset Fund**
 - Expenditures
 - \$7,920 Personnel Services

FISCAL IMPACT

The recommended General Fund budget adjustments have been reflected in the projections of total revenues and expenditures to fiscal year end. If approved, they will result in additional appropriations of \$1,237,109 offset by revenues of \$600,600.

ATTACHMENTS

Resolution

Exhibit “A” – Supplemental Appropriation Requests, Fiscal Year 2019

Exhibit “B” – Personnel Requests, Fiscal Year 2019 Mid-year